Q1 2023

UBAM – MULTIFUNDS SECULAR TRENDS

Quarterly Comment | Q1 2023

For Professional Investors in Switzerland or Professional Investors as defined by the relevant laws.

Fund classification under Sustainable Financial Disclosure Regulation (SFDR):

UBAM – Multifunds Secular Trends: Article 8

Market Comment

- Stock markets recorded broad gains over the first quarter of 2023, with the MSCI ACWI* climbing 7.31% over the period, but not without considerable volatility along the way as January started off very strong on the back of China re-opening optimism, while February saw increasing concern about further rate hikes because of very strong economic activity and higher than expected inflation figures. However, a sudden bank run at a regional US bank at the beginning of March quickly spread apprehension in the financial sector globally, completely shifting the market outlook for interest rates in the process and sending the markets into panic for two weeks. Fortunately, coordinated efforts by regulators and banks helped alleviate fears of a domino effect and prompted a rebound that extended through to the end of the quarter.
- The Fed's governors still decided to increase the Fed funds rate by a further 25 basis points in March, taking the benchmark fed funds rate to a target range between 4.75%-5%.
- Sectors that are negatively exposed to interest rate sensitivities and that sit firmly in the growth investing bucket such as information technology, communication services and consumer discretionary outperformed significantly in the first quarter, with the MSCI World Growth index* up 15.10% over the period. Whereas inversely, defensive sectors such as energy, health care, utilities and financials clearly underperformed and the MSCI World Value index* closed the quarter up 0.92%. In terms of size, small caps outperformed their large caps counterparts for most of the quarter on better optimism but significantly underperformed in the face of panic.
- In terms of region, Europe had the best performance with the MSCI Europe* returning close to 8.61% over the period, while the S&P 500* as a US proxy was up 7.36% and the MSCI EM* was up only 3.96%. US dollar weakness helped Europe and emerging markets alike gain some ground at the beginning of the quarter, but Europe solidified its lead when geopolitical tensions between the US and China resulted in a pullback in the Chinese tech rally.
- In terms of sustainability regulation developments, the European Commission released a communication that outlines the actions that the Commission intends to take to stimulate investment in the "net-zero industry" within the EU.

Sources: UBP, Bloomberg Finance LP.

All performance figures are given net of fees. Past performance is not a guide to current or future returns. See full disclaimer at the end of the document.

Performance Review

- During Q1, the fund returned 5.21% versus 7.31% for the MSCI AC World Index net of fees (Institutional share class).
- Manager selection was negative over the quarter whilst theme allocation was only slightly negative over the quarter (Environment was positive, so was AI and Robotics).
- Structural and marginal cash allocation was detrimental.
- Our manager selection on aging population and environment contributed negatively.

Sources: UBP, Bloomberg Finance LP.

Portfolio Activity

- While remaining wary of valuations, overall uncertainty surrounding war in Ukraine and inflation pressures prompted us to reduce overall exposure to highly valued stocks.
- We decided to initiate a new position in Energy transition with a new manager we selected to better capture the Climate Change trend.
- During the first quarter we made no other significant change to the portfolio.

Sources: UBP, Bloomberg Finance LP.

Outlook

- By focusing on the underlying medium to long term defensible value creation potential, strategy is well positioned to capture structural performance opportunities despite 2023's uncertainties. The defensive characteristics of the portfolio, which have been reinforced in Q1 2023, are expected to provide investors with better visibility as global market dynamics change from valuation compression to earnings downside risk.
- In the first quarter of 2023 a recession was averted by the global economy with major developed markets proving more resilient than expected. Demand remained robust and mainly driven by services, whilst supply conditions continued to improve, enabling a stabilization of the manufacturing activity downturn. As a result, recession risks eased in the first part of the quarter, with PMI indicators providing evidence of economic strength and improved outlooks across major economies throughout the quarter. In March, financial news of the failure of Silicon Valley Bank and the takeover of Credit Suisse by UBS drove bouts of financial market volatility amid heightened uncertainty. Although these were isolated cases and rather unique situations, they led to increased concerns among market participants regarding bank portfolio losses, deposit flight, and contagion risks. Several statements and liquidity support measures from central banks helped to reduce market fears herein however, with sentiment improving towards the end of the quarter. Despite the banking crisis being contained, recent developments could result in a faster and more pronounced tightening of financial conditions through tighter lending standards which will need to be monitored.
- According to central bank surveys, lending and credit conditions were already tightening before the recent market stress. This suggests that any acceleration or intensification in tightening standards could translate into more adverse macroeconomic consequences, posing risks to the recently improved economic and inflation outlook for developed economies. Inflation could now ease faster than anticipated as the reduced availability of credit and tighter borrowing conditions weigh on households and business demand, employment and prices. Inflation continued to decelerate in the first quarter of the year and even more so towards the end of it as base effects on the energy front kicked in. Core inflation remains well above target amongst most economies, supported by services and tight labour market conditions. Looking ahead, financial news aside, global inflation is expected to ease further, benefitting from base effects on commodity prices, cooling demand, and improving supply chain conditions. Wage pressures are also expected to ease as unemployment rates begin to rise on the back of weaker growth, helping a deceleration in service prices. That said, we expect for some volatility to persist meaning that the path towards lower inflation may not be a linear one. Overall, the strength of labour markets within DM economies combined with resilient growth from Asian countries should support global growth this year, which we expect to remain solid and above 2%.
- Equity markets have begun 2023 in cheerful mood, but March 2023 was a month of divergent returns depending on theme and geography. Investors demonstrated a strong preference for large caps and technology, and leadership proved to be very narrow, for example 88% of the S&P's advance in March was derived from 10 tech names. The switch of market leadership from Value to Growth follows a well-trodden playbook where one period's share price leaders become the next market phase laggards.
- As active managers, such an environment should very much play to the team's strengths, as quality companies are increasingly sought after, and the valuation sensitivity is rewarded by way of outperformance. The investment team remains very optimistic that their investment approach will be rewarded in the current environment.

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